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SALES & MARKETING MANAGEMENT
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S&MM SPECIAL REPORT

SALES & MARKETING MANAGEMENT

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Managing costs for more productive selling

The path to higher profits is best cleared not with the meat axe of indiscriminate cost cutting but the scalpel of creative management. Some of the key ingredients: better assessment of customer potential, use of a well-trained telephone sales staff, and recognition by sales managers that they can be one of the chief obstacles to progress. Page 35.

Inside Out

Shopping by computer. Thanks to a former IBM executive, San Diego shoppers dial a data bank for where-to-buy-it information. Page 10.

Ronson's gift. After floundering in cigarette lighters, shavers, and appliances, it's trying pens. Page 10.

Sales meetings. To sharpen their note-taking, salespeople are advised to jot down summaries of newscasts before attending a meeting. Page 11.

A rag for the rich. If you're in the market for a yacht or a used Rolls-Royce, try *The Robb Report*. Page 11.

S&MM Barometer. There's little hope for a sharp upturn in industrial production. Page 13.

Sternson builds sales. A Canadian company is out to make a name for itself in structural grouts. Page 16.

Big time for Bonzo. Even before Ronald Reagan enters the White House, his former co-star is a hit in novelties. Page 17.

Letter from Tokyo. Much of Japan's feudal culture remains, but prices have caught up with the times. Page 23.

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COMING UP NEXT

S&MM's Annual Awards Issue

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What's coming up

Sixth Annual Awards. Which marketing organizations have been most successful in their industries in 1980? The winners will be profiled in S&MM's Annual Awards Issue. This time around, S&MM's Special Citation goes to an entrepreneur who created a multimillion-dollar company not once, but twice. Jan. 12.

An S&MM Special Section: Trade Shows. More than ever before, trade shows are in flux. Trends include the growing number of regional shows and new exhibit techniques. Included: Should you exhibit . . . or not? Jan. 12.

Turnaround. After years of aimlessly pursuing its industrial markets, Corning Process Systems' North American Group is getting on target with new products and upgraded field selling. Feb. 2.

Survey of Selling Costs. New features enhance the 1981 edition to help managements contend with field sales costs. Included are data on what companies actually pay per month for such basic expenses as meals, entertainment, lodging, and the like. Feb. 23.

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ABP MPA BPA ABC

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advice to them is to listen to a ½-hour news program and jot down brief summaries of each item in the newscast. The next day, they should check to determine if their notes accurately convey their true impressions of what they heard. "Practice until you can take notes you can trust," Tarnoff advises his readers.

The booklet is an unintimidating 12 pages long, which increases the chances that salespeople will read it and learn from it. It may be ordered from The Meeting Place, 401 N. 4th St., Fairfield, IA. The price is 75¢, with discounts for quantities over 100.

TELEPHONE SELLING

Long Lines' new number

Dial-It Services, a part of AT&T's Long Lines Div., now allows phone customers to call 900 area code numbers from anywhere in the country and either hear a short, recorded message or engage in informal polls. Companies "renting" a number pay up to $2,000 a day depending on how much of the country is covered; whoever dials a 900 number pays 50¢ while 800 numbers stay free.

Fred Weismuller, new products manager, notes, "Our targets are networks, broadcast media, and advertisers." Possible uses for the service cited by Marilyn Cappell, group product manager:

- Companies can relate messages about such things as beauty care or baby care using a celebrity announcer.
- Advertisers can give callers more information about advertised products or services.
- Simon Kreiger, product

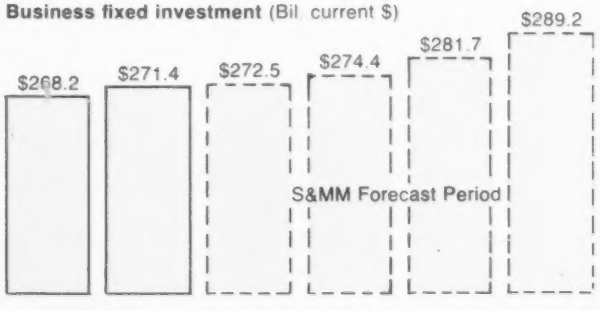
S&MM BAROMETER

Plodding pace for industrials

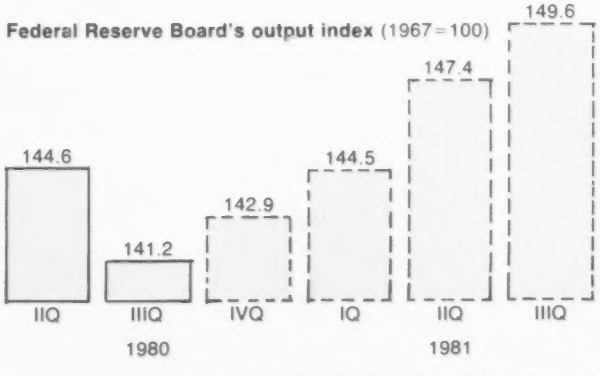
Even with a change in the White House, there seems to be little hope of a sharp upturn in industrial production. For one thing, tax cuts promised by the incoming Reagan Administration won't completely offset built-in tax increases set to go into effect next year. For another, with such key end-user markets as autos and housing facing rising interest rates and consumers with pinched real incomes, businesses that depend on them won't be boosting output or spending at fancy rates.

S&MM's Barometer projects output rising only 1.1%, 2.0%, and 1.5% through 1981's first three quarters, respectively. Such modest gains will leave industry with considerable unused capacity, which will not encourage capital spending. McGraw-Hill's capital spending survey projects a 11.9% gain in 1981 but, as chief economist Eric Herr notes ruefully, with prices expected to surge 10.1% that leaves a real gain of only 1.8%.

Business fixed investment (Bil. current $)



Federal Reserve Board's output index (1967=100)



Sources: Consensus forecast of Chase Econometrics, Data Resources, Inc., Evans Economics, Goldman Sachs, Manufacturers Hanover, Merrill Lynch Economics, A. Gary Shilling & Co.
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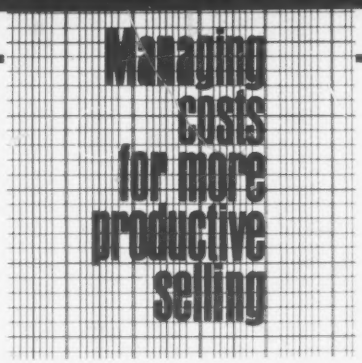
S&MM SALES & MARKETING MANAGEMENT
SPECIAL REPORT

Managing costs for more productive selling



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Managing Costs for More Productive Selling

The high cost of not managing

By MARTIN EVERETT
Managing Editor

At the very moment you are reading this Special Report on productivity, a dauntless executive with a major industrial corporation is putting together a proposal for an ambitious in-house selling program in his company. Many field sales and service functions will be brought into headquarters; systematic computer analysis will select accounts for followup by skilled telephone salespeople; a number of field salespeople will be assigned to key accounts, and the remainder will be given the choice of joining the in-house force or departing.

The executive, who understandably prefers to remain anonymous, is not in sales but customer service. Like those who have proposed similar ways to increase productivity at other companies, he faces a formidable obstacle: the sales department. "You'd better sell it to the guys in sales first," he was advised. "Without their approval, top management won't be interested."

One reason that the sales function these days often is reshaped by forces outside the department is purely financial, of course. As Dr. Charles W. Stryker points out in his case history in this Special Report, it is difficult to think of any area of business that has undergone so little scrutiny by top management and the corporate controllers. With the cost of everything from gasoline to martinis moving upward, it's no surprise that the meat axe is falling heavily on sales.

Yet, important as it is to keep expenses in line, effective marketers talk not so much of *controlling* costs as *managing* them. That's because the underlying issue is not the sales budget but the productivity of every member of the sales force. Few sales vice presidents would balk at installing company-funded gas pumps in the front yards of their salespeople if they were convinced it would help triple business with their key accounts. Similarly, courting customers with a round of drinks and golf may sound unsophisticated, but if the corporate controller can be persuaded that he's getting a generous return on investment, he won't complain too loudly.

If anything, all the concern about deploying sales representatives in the field probably masks the basic issue, which is simply that the economy—both in the U.S. and overseas—is changing in ways that add up to a tougher selling climate for everyone. Purchasing managers at industrial companies are forced to evaluate a supplier's products and services in terms of what they can do for the bottom line. Families hardened to the prospect of continuing inflation are being more careful in spending their disposable dollars—if indeed any amount of money still deserves the label "disposable."

This is not to say that anyone can afford to ignore the rising costs of field selling. The accompanying table prepared for S&MM's *1981 Survey of Selling Costs* (to be published Feb. 23, 1981) shows that the rate of increase in cost per call this year has jumped for all five categories of salespeople. The upward pressure on the budget actually is much greater because S&MM's figures take into account only compensation, surface travel, meals, lodging, and entertainment. There is no allowance for administrative expenses, airfare, or advertising and promotion.

Note, too, that the costs shown are median figures from the survey taken by the American Management Assns. and analyzed for S&MM by

Cost per sales call edges ever higher

Type of Salesperson	*Median 1980 Cost Per Call*	*% Increase 1979–80*	*% Increase 1978–79*	*1974–80 Annual Rate*
Account representative	**$58.56**	**4.3%**	**2.7%**	**11.6%**
Detail salesperson	**27.50**	**8.5**	**7.2**	**12.7**
Sales engineer	**60.95**	**15.3**	**10.7**	**8.8**
Industrial products salesperson	**42.95**	**16.1**	**8.0**	**10.9**
Service salesperson	**31.95**	**9.6**	**3.2**	**10.9**

Note: Due to a change in methodology, data shown in prior years were recalculated for purposes of this comparison.
Source: *Sales & Marketing Management's 1981 Survey of Selling Costs*

Technomic Consultants, Chicago. Thus the cost per call for a sales engineer climbed 15.3% this year to $60.95, but this varied widely from one company to another. For example, the middle 50% of companies surveyed had costs for sales engineers ranging from $26.40 to $95.45.

Similar patterns prevail for other categories. The account representative (primarily a consumer-goods title) shows a median of $58.56 per call and a range of $24.40 to $92.90. For the industrial products salesperson, the median is $42.95 and the range $17.40 to $68.50. Overall, field selling costs (*not* including compensation) climbed 11.7% this year for all types of sales representatives. Compensation for field sellers was up even more, by 8.5%.

If consumers are being choosier about what they buy and top management more demanding about financial results, it's only natural that sales and marketing executives must be more selective in how they do business. In some instances, this may take such forms as insisting on minimum orders or more stringent payment plans. At many companies, however, the changes run deeper. Productivity, management concludes, can be improved only if the marketing organization has a precise idea of which customers represent the greatest potential for its products *and* services.

Relying heavily on information from their own computers or from data-services firms, marketing researchers work backward to the requirements of individual companies in a specific industry and determine what products their company can supply to each target account. Not only are their methods more accurate than those used a decade ago, but they are reaching entirely different conclusions from their predecessors.

No longer do they think in terms of supplying all, or even most, of their products and services to every customer. Some companies are deciding that it is not profitable for them to have salespeople calling on any but the largest accounts. Others concentrate on selling to small- and medium-sized companies, leaving the top spectrum of the market to larger competitors.

Unfortunately, this sort of selectivity has not taken hold everywhere. Too often, salespeople are still required to be generalists, responsible for virtually all the marketing functions in their territory. This means that a skilled sales representative sacrifices precious face-to-face selling time by identifying accounts and qualifying them, tasks that might better be performed by an in-house marketing team at headquarters.

But what can be done if the sales force already is selling at a relatively sophisticated level? Consolidate. The Flexible Packaging Div. of Reynolds Metals cut its costs dramatically this year by combining two of its three field forces, then backing up the move with a management-by-objectives program that helped field managers and salespeople analyze their own cost structure. Owatonna Tool, faced with shifting distribution patterns in its markets, carried out a partial consolidation. It retained two separate divisional sales forces up to the district-manager level but combined the upper management so that the company has one national sales manager and eight regional managers who are responsible for both field forces.

For marketers trying to crack a new segment of the market, the temptation to use *someone else's* sales force may be irresistible. Dow Corning, traditionally a power in the market for industrial sealants, has just given its consumer line to Schering-Plough's DAP, Inc., subsidiary, which has a strong entree in the do-it-yourself market (see page 29). The retail food group of Dart & Kraft for years has handled Pillsbury's refrigerated dough products, which are sold from the same dairy cases as Kraft's cheeses. Ocean Spray Cranberries is testing a program to increase its share of the foodservice market by having Heinz handle its line in the West and Southwest.

Such arrangements don't always work out. When England's Wilkinson Sword introduced its razors and blades to the U.S. a few years ago, it gave the product to the Colgate-Palmolive sales force, and for a time all went well. The marriage was dissolved in 1978, however, when Wilkinson decided that it was less expensive to use independent reps. Nabisco earlier this year launched a trial balloon announcing that the 3,000-member sales force of its Biscuit Div. was available for use by marketers of non-competing products. So far, there have been no takers.

If companies can engineer such sweeping changes it doubtless works wonders for sales productivity. But for the most part, once salespeople are committed to the field, improved performance may rest largely with the individual. Take the industrial account representative who convinced his accounts that they would get better service if *they* filled out the 17-part order form while he went about his business. This did a lot for *his* productivity, but no one can say for sure what it did to the purchasing department at his customer companies.

Managing costs for more productive selling

In the name of productivity

Let's repeal the 80-20 rule

By DR. JACK P. DONIS
Prof. of Accounting and Finance, Seton Hall Univ.

Politics seems to be in the air this year, so I'm coming out four-square for a bill that would relieve business from the counter-productive effects of the so-called "80-20 principle." Like all laws, there may be some good in this oldie, but it is time that sales and marketing executives take up arms against this monster of their own creation and neutralize it. It promises to be a desperate battle fought company by company, division by division, and ultimately salesperson by salesperson.

First, let us examine that 80-20 principle as it is traditionally applied to marketing. There is ample evidence that 80% of the sales are realized on 20% of the accounts, and 20% of the sales are realized on 80% of the accounts; and conversely, 80% of the costs are incurred getting 20% of the sales. In every organization, management knows about this disparate revenue-cost relationship. However, it usually is relegated to the same category as the weather: everyone talks about it but no one does anything about it. The few that do something about the principle, however, are the companies that are both higher revenue producers and lower cost operators.

The specific areas where the 80-20 principle is most applicable are: (1) the "hit ratio" of successful sales calls and the size of the order received; and (2) the ability to deliver the materials ordered, i.e., to avoid the "stock-out" problem. There are many other areas where the 80-20 principle is applicable, but these two fall under the purview of sales and marketing management and potentially contain large profit improvement opportunities for both increased revenues and decreased costs. If sales and marketing executives don't shoulder the responsibility, there is the danger that some expense controller will get into the act.

Early in my carecr I *was* an expense controller, and I think back sadly to the typical cost-control approach: wield a meat axe. This was cutting for the immediate benefit of lower selling expense in the misguided belief that all other expenses and sales would go on undisturbed. We tried cutting a sales expense budget by reducing the protection budget. Security expense was reduced by $50,000 as planned, but there was an unfortunate side effect: inventory shortage increased by $225,000 during the six-month period. On the surface, expense was reduced by $50,000, and the $225,000 shortage was buried in the cost of goods sold and charged to the marketing function! This is far from an ideal concept of managed costs. Instead, management should aim for simultaneously *reduced costs* and *increased revenues* by coming to grips with the high costs that exist when the 80-20 principle is adhered to blindly.

Build a data base

The direct selling cost per dollar of sales revenue is frequently out of line. Salespeople wear out shoe leather or burn up tires as they dash from prospect to prospect looking for an order—any kind of order—on the theory that every little bit helps. That is just wrong thinking and bad business. There must be a reasonable relationship between sales revenue and selling cost for each transaction. To achieve this, field salespeople need a data base, which may or may not be computerized.

The data base should contain information on such things are: What is the market? Where is the market? Who are the big buyers? Who are the small buyers? This is the first step in breaking away from the wasteful practice of letting 80% of the costs produce 20% of the revenue. Sales management must say to the sales staff, "we

don't want you to work harder, we want you to work smarter," and then quickly analyze its own performance. In so doing it may discover to its chagrin that it is in the position of Pogo when he exclaims, "We have met the enemy, and it is us!"

If the market is not segmented and the sales staff's efforts are not directed to the potential customers of the right market, of the right size, at the right time, the dismal results should not be blamed on the salespeople. It points a finger right at the management. If 20% of the sales effort and selling costs actually do produce 80% of the sales, and if the other 80% of the costs were properly identified and managed, the result could be startling.

One of two things could happen: (1) the number of salespersons could be reduced sharply, because, with properly directed selling effort revenue would not change; or (2) with the same sales force deployed into the most productive areas, the goal of higher sales and a larger share of the market at no increase in selling cost could become a reality.

Complete correction of the 80-20 rule would thus lead to optimum distribution costs. Unrealistic? It's a worthy goal, and it should become a battle cry. Remember, in football every offensive play is designed to be a touchdown. Why not in selling? The vision of salespeople getting rich and corporations getting richer, can be realized.

Off tackle for more effective selling

There is an assumption implicit in the results claimed for redirection of the sales staff into the right market: that salespeople know the most effective *way* of selling. There are few born salespeople. Most good ones are made (trained) especially when they sell to sophisticated markets.

The untrained salesperson is quickly relegated to the status of peddler. He is unable to comprehend that customers don't buy products or services because they happen to be products; customers buy products or services because they are assets that they can resell at a profit to enhance their return on investment.

How many salespeople are trained to sell profit improvement opportunities instead of the product or service that the company happens to sell? It's obvious that repealing the 80-20 rule with regard to improving sales volume and profitability requires a two pronged attack: (1) data-base development to manage sales direction and costs, and (2) sales training to insure that the sales force goes into the scientifically determined market knowing what it is selling and how to sell it. If these two basic investments have not been made, there is reason to believe that the company is a typical 80-20 operator.

Remember that the cost of achieving the necessary low-cost–high-volume operation is referred to here as an investment, not an expense. An expense is an expenditure for immediate consumption and does not imply future and continuing benefits. Costs that provide future benefits are assets (investments) and are measured by the return they bring; i.e., the return above the cost of the outlay. The waste in 80-20 selling is so high that even a substantial investment is readily justified to correct the situation.

When sales suffer because of inventory problems, don't blame the controller, look to the marketing executive.

Inventory control belongs to marketing

The second area where the 80-20 principle affects the marketing function is in the inventory area. In most companies, 80% of the sales are made on roughly 20% of the inventory, and 20% of the sales are made on 80% of the inventory. Many executives look at inventory management as a financial problem. It is, secondarily. It is first a sales and marketing problem.

It is a truism that companies never seem to run out of slow-moving stocks, only those that are good sellers. To deploy a sales force to take orders for stock-out merchandise is hardly productive. If anything, it can be counterproductive.

In a business downturn, management at all levels becomes cost-conscious and it often turns first to bulging warehouses. Where tight inventory management has been lacking, it is generally found that 80% of the inventory is turning over very, very slowly, and 20% is turning so rapidly that there are constant stock-outs. My own experience in a retail furniture chain led me to wonder if the marketing executive intended to hold on to his modern furniture inventory until it turned into modern antiques. It was little wonder his salespeople couldn't sell because the bulk of the inventory investment was in slow or nonmoving stock.

The marketing man would not face up to his past errors and take his markdowns, liberate the investment so that it could be used to provide inventories where there was demand. Inventories out of balance and control are not the fault of the "damn controller." He is only the scorekeeper and reporter to the operating executive. His function is to make information on inventories avail-

In addition to his academic responsibilities, Dr. Jack P. Donis does management consulting and is affiliated with the Greenhouse Group, New York City, management consultants.

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able to the marketing people, not to manage them. When sales suffer because of inventory problems, don't blame the controller, look to the marketing executive.

Unfortunately, many executives do not consider inventory investment and control a marketing function. It is, or should be, because if a company wants improved selling and higher profit it must make sure the goods are deliverable in the promised time. I have heard many complaints from retrained professional salespeople that, "now that we can and do sell, they can't deliver!" (Actually, this is a slightly censored version of what has been said to me on several occasions).

Today's high interest rates and other carrying costs can readily reach close to 25% of the value of the inventory, which naturally creates pressure to reduce inventories. But if there is any correlation at all between production and sales, there has been no recent production of slow moving stocks. This leaves only one place to cut back: the 20% of the stocks that *are* selling! However, that doesn't make sense because, if inventory cuts are made on what is selling because what *isn't* selling is already filling the warehouse, what is the salesman going to sell? Solution (it will hurt): Take your markdowns and sell the slow-moving inventories so that enough dollars are freed for investment in the 20% selling area.

It should be apparent that there are many factors that must be taken into account when considering managing marketing costs to achieve optimum selling costs. The time-honored meat-axe approach is bad, but it is found near the head of the list of options for the short run. It may be the only short-run option if the past errors of ommission and commission are rampant.

Time and money permitting, a better way is to meet head on the virulent 80-20 principle that insinuates itself into all phases of a company. Don't bother writing your congressman. He can't help. Better to face the fact that it's time for sales and marketing executives to return to fundamentals.

Managing costs for more productive selling

A case study in sales force productivity

By DR. CHARLES W. STRYKER
Principal, Information Management Group, Inc.

In the 1980s, a larger portion of the cost of doing business will be cost of sale. Considering that the cost of one direct sales call today is approaching $200, and this cost is rising at a significantly faster rate than inflation, it is time to take a close look at how these critical sales resources are supported. The key question is: In this changing economic environment, how can sales productivity be improved and what return on investment can be expected?

To present the productivity framework, here is a case study of a major manufacturer of electronic office products with a nationwide market. This company has corporate sales of approximately $100 million and a direct field sales force of 300 representatives. In the productivity analysis, it was assumed that each representative averages 2 sales calls per day or 500 per year. Through a brief analysis of recent sales, it was determined that when sales were made, the average value of the sale was approximately $10,000.

To analyze sales efficiency, a standard for characterizing sales performance must be developed. Figure 1 illustrates the productivity profile I find most useful.

Through an analysis of the productivity profile, it can be seen that only three ways exist to improve sales productivity:

- Increase the total number of calls per year (T) without increasing sales cost.
- Increase the average revenue per sale (S).
- Improve the close rate (C).

For this particular manufacturer, the close rate is 1 out of 15; that is, 15 sales calls must be made to close one $10,000 sale. At $200 per call, $3,000 must be spent in direct sales cost to close a piece of business. The close rate is also interesting from an analysis viewpoint since 14 calls obviously do *not* directly result in a closed sale. It is difficult to find any other standard, accepted business practice where 14 failures to achieve one success is the norm. Certainly, in manufacturing, if 14 of every 15 products produced did not function, the plant manager would be on the carpet in short notice. In our firm's recent analysis of close rate for 30 corporations, the best close rate was 1 out of 10 while the least favorable was 1 out of 200.

Specifically for this case study, three factors—total number of calls (T), average revenue per sale (S), and close rate (C)—are the critical variables to monitor throughout the productivity analysis. To describe the level of improved sales performance that was planned by this manufacturer in the first year of a structured productivity program, the profit objectives should be examined.

Figure 1

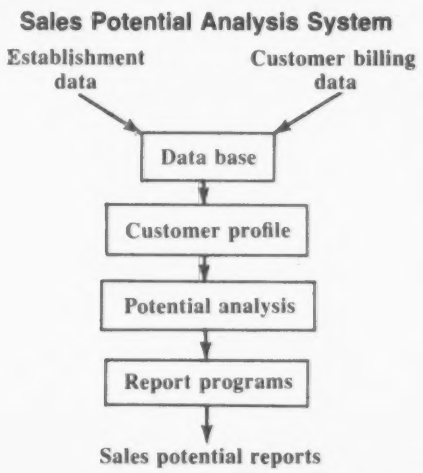
Productivity Profile

Annual revenue (A)	$100,000,000
Number of sales representatives (R)	300
Number of calls per year per rep (L)	500
Total number of calls per year (T=R×L)	150,000
Average revenue per sale (S)	$10,000
Total number of sales (N=A/S)	10,000
Close rate (C=N/T)	1 out of 15

In the first year of the program, this manufacturer included only 10% of his call capacity (T) in the productivity program (i.e., 15,000 sales calls). The remaining 90% of the sales calls were unaffected in the first year. This objective was based on the practical consideration that a program of this type requires a coordinated effort and total acceptance by the sales force. Therefore, in the first year, it was felt that at least 30 of the 300 representatives could be brought into the program in a start-up plan. The objective was to allow the sales productivity program to be evolutionary from the sales representative's viewpoint.

A consultant who has worked with many major corporations on sales planning and analysis, Dr. Charles W. Stryker previously worked for AT&T, Bell Telephone Laboratories, and IBM.

Figure 2



For these 15,000 sales calls, the performance objectives were:

- Improvement of the average revenue per sale to $12,500 from $10,000
- Improvement of the close rate to 1 out of 10 from 1 out of 15.

When considering these modest improvements applied to only 10% of the field resources, the increased revenues would be $8,750,000, or an 8.75% improvement in overall sales performance. More important, these revenues were generated with minimal additional sales cost (i.e., no new salespeople were hired); therefore, the incremental profit for these revenues was much higher than normal.

For this manufacturer, about 30% of the cost of doing business was sales cost and about 10% was profit. Therefore, the incremental profit margin on these increased sales was 40%, not 10%, yielding a gross profit of $3,500,000 as a result of the productivity program. If this profit objective were to be achieved through hiring additional sales representatives, the increased revenues would have to be $35,000,000 to yield the same profit.

Analysis framework

The first step of the productivity analysis is to break the sales process into its basic components. The basic components that I find to be most useful are:

Account identification. This process identifies both customer and prospect accounts contained within assigned sales representative territories.

Account qualification. This process evaluates each account contained within sales representative territories to determine which accounts have sufficient potential to justify sales activity and expense. In addition, this process includes the evaluation of the buying preferences of identified decision-making executives.

Awareness generation. This process increases the awareness level of decision-making executives concerning how this manufacturer's products and services can assist them in more efficiently performing their work functions.

Interest generation. This process creates opportunities for executives to declare interest in this manufacturer's products and services (i.e., sufficient interest to schedule an appointment with a sales executive).

Sales closing. This process leads interested business executives to the point of order. It includes consultative selling, overcoming objections, etc. The result of this process yields a signed contract.

The key to productivity analysis is the examination of each phase of the sales process and development of efficient methods of performing each of the phases. When this was done for the manufacturer in our case study, it quickly became clear that the backbone for all phases of the sales process was the field sales representative assigned to a specific geographic territory. With few exceptions, this field representative was totally responsible for all phases of the sales process from account identification through closing sales. When a detailed analysis of the above tasks was performed for our manufacturer, two key changes were made to improve productivity.

The first change was to implement a Sales Potential Analysis System (Figure 2) to identify and qualify prospect accounts more efficiently. The second major change was to implement direct marketing strategies to generate awareness and interest within targeted accounts.

Sales Potential Analysis System

When the sales process for this manufacturer of office products was examined, two problem areas quickly became apparent. First, field representatives were investing too much time with low-potential accounts. Secondly, because the field sales representatives were responsible for the

identification of accounts, much of their time was spent searching out good prospects. As a result, the time left to spend on the prime selling function was limited. The approach used to improve this process was to implement a computer-based sales potential sytem to support the identification and qualification tasks. This system combined two data sources to form the database of customer and prospect information.

The first of these two sources was information culled from historical billing files. This information identified those businesses that have historically purchased the office products sold by this manufacturer. The information gathered included account identity data (name, address, etc.) and purchase-related data (model, price, quantity, etc.).

The second source of data was information describing meaningful characteristics about current customer and prospect accounts. The factors that proved important in identifying potential for this particular manufacturer included:

- Demographic data—industry classification, size, location.
- Corporate affiliation—headquarters, subsidiary, branch.

The historic billing data and establishment data were then combined to yield a file of information on customer and prospect accounts. Once the data were organized, the information was processed to allow estimates of sales potential to be calculated for each customer and prospect. There are several possible methods used to calculate sales potential; however, all of the methods are composed of a two phase process.

The first phase is the development of a customer profile. The purpose of the customer profile is to determine the business characteristics of high-potential accounts. These methods rest on the common-sense foundation that the best (highest-potential) prospects are similar in many meaningful characteristics to the existing customer base. Once the customer profile is developed, the second phase of the process is performed. In this phase, the profile is compared to each prospect account.

The more similar a prospect account is to the composite customer profile, the higher the potential is for a sale. Once the sales potential analysis data base was specified and sales potential analysis completed, report programs were designed to meet the specific sales analysis and planning needs of this manufacturer.

There are two basic types of sales potential reports produced by the system. These are planning reports and sales lead reports. The planning reports are provided to answer a wide range of strategic issues at a segmented level. These segments can be geographical segments (e.g., sales territories), market segments (e.g., manufacturing), or revenue segments (e.g., all customers billed over $10,000 per year). For our case study, the following are the key strategic issues addressed:

- In what industry should our sales effort be targeted?
- What is the relative potential between sales territories?
- Which sales offices should hire additional force?
- What should sales office quotas be?
- Can we better define sales territories?
- What is our product penetration by sales office?
- How much direct marketing investment is appropriate?

To answer these strategic questions, a series of sales planning reports was produced, one of which is shown in Figure 3. As seen in this figure, the geographical segmentation is hierarchical in nature, displaying marketing information from national, regional, and sales office breakdowns. The market segmentation is also hierarchical in nature, displaying marketing information by segment (e.g., manufacturing), subsegment (e.g., metal products), and total market.

For each intersection of the above report, eight marketing indicators were computed:

- Current revenue
- Potential revenue
- Number of businesses
- Number of customers
- Percent of current revenue
- Percent of potential revenue
- Percent of revenues realized
- Penetration.

This presentation of sales planning information provided substantial insight into the critical sales planning issues. For example, it was used to set sales quotas based on the potential in territories, not simply the current level of sales.

In addition to the above strategic reports, the system produced specific sales lead reports for selected industries, geographies, and types of business. For example, the system can identify by name and address all manufacturing companies in the Boston sales office territory that have over $15,000 in sales potential.

The system described above dramatically changed this manufacturer's method of identifying and qualifying accounts. It not only reduced the cost of having field sales representatives identify and qualify accounts, but also produced better accounts for sales executive follow-up.

Direct marketing strategies

The second major change that resulted from the sales productivity study was a different approach to generating awareness and interest within targeted accounts. This approach was based on harnessing the power of direct marketing methods in conjunction with the results of the sales potential analysis. The latter indicated that a high concentration of potential existed within a relatively small number of prospects. Based on this finding, the market was segmented into high-, medium-, and low-potential accounts as shown in Figure 4.

High-potential accounts were those specific business enterprises identified by the Sales Potential Analysis System as having very high potential. For this particular manufacturer, these 20,000 businesses comprised 40% of the total revenue potential for the office products manufactured. The 100,000 establishments that comprise the medium-potential business market contribute an additional 40% of the potential. The remaining 800,000 establishments make up the remaining 20% of potential for these specific products.

Based on this potential analysis, individual strategies were developed for each phase of the sales process for each level of potential as shown in Figure 5. For the awareness strategy, a profile of the high- and medium-potential accounts was produced from the Sales Potential Analysis System by geography (sales office) and by industry. This information was used to structure an awareness program targeted toward these accounts. This strategy involved the integration of targeted advertising and trade shows as well as seminar programs.

For the interest phase of the sale, a direct marketing program was developed for those 20,000 targeted high-potential accounts. For these accounts a telephone prescreening was performed to obtain decision-making executive names and titles. In addition, profile information was collected with regard to interest and recent purchases.

Following the telephone prescreen, several direct mail offers were made as part of a high-quality lead-generation program. These direct mail approaches offered a valuable report to aid the potential buyer in planning his office equipment purchases. For the nonrespondents, a telephone offer was made to reinforce the direct mail.

The objective of this strategy is to encourage a large percentage of the high-potential prospects (30%–35%) to accept this valuable report, which was used as the entrée for the sales representative. For each prospect that requested the report, a sales lead was prepared and sent to the assigned field sales representative.

As seen in the above strategy, the power of mail and the telephone have been used to reduce greatly the cost of getting the sales representative in the door. In addition, the leads provided to the sales representatives are of high quality.

The medium-potential interest generation strategy involves a lower cost, harder selling strategy. For these 100,000 prospects, a direct mail lead generation program was implemented. There was no telephone prescreening and the offer itself was a harder sell wtih a reply card (and toll-free number) if the prospect wanted account representative follow-up. The objective of this strategy is to limit the response from this target market to those businesses and executives that have high levels of interest, since a long selling cycle cannot be justified.

The analysis and strategies described in this report have been implemented and are currently being accurately tracked and evaluated through a comprehensive measurement system. The initial results indicate that profit objectives will be met. In addition, the system is providing detailed information regarding the quality of leads, effects of competition, quality of creative materials, and sales skill measures, as well as other key evaluation factors.

Figure 3

Market segments	*Sales Offices* NYC	Phil.	Bos.	*Regions* East	South	National
Agricultural	•	•	•	•	•	•
Mining	•	•		•		
Construction	•			•		
Manufacturing						
Textile products						
Petroleum products						
Metal products						
*						
*						
*						
Total market	•	•	•	•	•	•

Figure 4

Potential	*Number of Prospects*	*Average Sale*	*Penetration %*	*% of Potential*
High	20,000	$21,000	9.0%	40%
Medium	100,000	11,500	3.5	40
Low	800,000	8,000	.3	20

Figure 5

Phase	*High*	*Medium*	*Low*
Awareness	Advertising, trade shows	Advertising, trade shows	None
Interest	Direct marketing	Direct mail	None
Close	Sales rep	Sales rep	Sales rep

Managing costs for more productive selling

The power of a negative incentive

Air-Shields guards the till

By JOHN MUTTER
Associate Editor

Jim Myhre, national sales manager at Air-Shields, a subsidiary of Narco Scientific, Hatboro, PA, has an unusual incentive program for keeping sales force costs down. It's a negative incentive for regional sales managers, *not* salespeople, to stay within their budget guidelines.

If a manager goes over budget, a carefully calculated amount is deducted from his region's annual sales volume, which of course, is the basis for calculating his commission. (Regional sales managers at Air-Shields also earn a certain part of their compensation as salary.) Thus to make the maximum commission, the regional sales managers must stay within guidelines. Says Myhre, "The system works. I know because I'm under the same pressure from above myself."

Once annual sales targets have been determined by Air-Shields, whose 29 salespeople sell such specialized equipment as incubators for new-born babies and therapy lights for intensive-care nurseries in hospitals, Myhre sits down with each of his five regional sales managers. Together they determine how many people are necessary to meet these sales quotas.

After that, says Myhre, "The expenses fall into place." For instance, Myhre takes into consideration the prior budgets of each regional sales manager, probable car expenses, travel and entertainment, equipment rentals, and such things as salaries, wages, and rentals for office space.

During a given fiscal year, regional sales managers receive monthly reports that list both the previous month's actual and budgeted expenses as well as year-to-date totals. In this way, they can keep current on how their performance compares with the guidelines. Myhre also meets with them three or four times a year specifically to discuss expenses.

If despite such precautions the regional sales managers go over their guidelines, Air-Shields uses a formula to calculate a penalty. Myhre describes it: "We take the budgeted sales expenses and divide that figure into the overall sales target to come up with a multiplier. We then multiply the amount of money over the budget by the multiplier." For example, if the sales plan calls for sales of $2 million and expenses of $200,000, $200,000 is divided into $2 million, which results in a multiplier of 10.

If a regional sales manager finishes the year $20,000 over his budgeted expenses, that figure of $20,000 is multiplied by 10. The resulting figure of $200,000 is then deducted from the amount that the sales commission is figured on. In this example, the regional sales manager would wind up with a percentage of $1.8 million, not $2 million, as his commission.

Myhre notes that he doesn't use this kind of plan with his salespeople. He explains: "I don't like to complicate the incentive plans we have for salespeople. The easier incentive plans are to understand, the better the salespeople will perform." He also maintains that negative incentives don't help salespeople. He says, "Their main objective is to sell as much as possible against a quota." Presumably, management can keep a sharper eye out on budget matters.

Myhre notes that modifications must be made occasionally. During 1980, for example, when gasoline prices jumped to well over $1 a gallon, Air-Shields revised upward the guidelines for gasoline expenses. And when the bottom fell out of the used-car market earlier this year, Air-Shields had to lower the estimated resale value for its fleet cars. Notes Myhre, "We were losing on average $500 to $1,000 per vehicle." Naturally, that hurt the regional sales managers.

This negative incentive plan was in effect in the sales force at Air-Shields when Myhre joined the company three years ago. Thus he's not sure how or when it was developed, but he does say

If a manager goes over budget, a carefully calculated amount is deducted from his region's annual sales volume, which of course, is the basis for calculating his commission.

JAUNDICED EYE

Dear Mr. Sutphen (or whoever you are):

This Special Report is devoted to managing selling costs, so perhaps Mr. Sutphen, vice president of American Express's Card Div., will be reading this column. He certainly hasn't been reading my letters to him. So, I'm addressing what follows to him, personally, in one last hope of getting through to him.

Dear Mr. Sutphen:

In the 1960s, I applied for and received an American Express card. It was green. I was very happy with it until you wrote to me in the early 1970s advising that a bigshot like me should have one of your Gold Cards. I fell for it, and eventually a Gold Card arrived. I then sent in my old green one, with a letter explaining why I didn't need it anymore.

Alas, my next communication from your company was a bill for dues on the green card. A dunning letter followed, so I wrote back reexplaining that I'd returned my green card. If you remember, I even pointed out with pride my exalted status as a Gold Card member. Shortly thereafter, I received two new green cards from you, one for me and one for my wife.

My next letter from you was another "overdue" notice—and a threat that you would cancel my green cards if I didn't pay up.

I didn't and you apparently saw the light or forgot all about me. Until late this past summer, that is, when you wrote to me again (two full pages), imploring me to *apply* for a Gold Card. I became very nervous. If you recall, my secretary, Marnie, wrote you a nice letter asking you to reassure me that my old Gold Card was still O.K. Before long, you replied with a letter identical to the first one, suggesting that I *was* eligible for a Gold Card.

Undaunted, Marnie wrote to you again, begging for reassurance about my Gold Card. She concluded with this comment: "If I am writing to a computer, shame on you. But if I am talking to a real live person, maybe you should talk to a computer!" (Forgive her for that, Mr. Sutphen. It had been a long day.)

Not much to my surprise, your next letter was not from you but from Maria Marcellino (at least, that's the way it was signed). In this letter, you apologized for inviting Marnie to apply for a Gold Card since, you explained, she already has one. You explained the error by noting that American Express employs "advanced computer techniques." Unfortunately, Marnie doesn't have any card (not on the wages I pay her). Also, she's afraid she'll now get a bill from you because your computer *thinks* she's as exalted as me.

Mr. Sutphen, I figure that you've spent at least four bucks worth of printing and postage on the letters that you've written to me, making you a basket case at managing your costs. In the interest of reducing my costs, I am saving the 15¢ postage in advising you via this column that you might want to rephrase your slogan. Maybe something like, "The American Express Card: Don't Leave Well Enough Alone."

By Jim Lavenson

that he has only modified it slightly. The other Narco Scientific subsidiaries (some of which were recently reorganized following Narco's decision to sell off all subsidiaries that aren't related to the health-care business) do not use this kind of program. Myhre says, "It's the kind of thing that is really only applicable to certain kinds of markets."

Indeed, the plan is ideal for companies that have very stable markets. Air-Shields, for example, sells only to hospitals and hospital dealers. Other companies, however, may find that such a plan either drags sales or is difficult to implement when the company is in a rapidly growing market or one that involves a lot of cold calling. Air-Shields' cost-control plan works because its market is relatively stable. Nonetheless, elements of this program may prove useful to companies in other markets. Anything more systematic than exhortations at sales meetings or occasional reprimands can't help but improve the effectiveness of cost control.

Managing costs for more productive selling

The customer service connection

One way to beat the high cost of selling

By WARREN BLANDING
Contributing Editor

With the cost of a sales call at record levels, it is urgent that every company at least explore the possiblility of using its customer service department to offset these costs. Generally, this can be done in three ways:

- Make field selling itself more cost effective
- Improve the customer-retention rate
- Upgrade sales by volume or product mix.

These strategies are hardly revolutionary, yet for some companies the fulfillment side of the business (which is basically how they view customers) is a cost-adding function that contributes little to the business except cost, complaints, and personnel problems. They are going to have to change these views if they expect to survive.

On a more positive note, a number of companies have already made the transition from a *reactive* type of customer service to a *proactive* mode of performing the three functions listed above, and they are making substantial contributions to corporate marketing goals. Their strategies, in composite form, are summarized below.

Making field selling more cost-effective

Given the soaring costs per sales call and a typical schedule that seldom exceeds five calls per day, a field salesperson whose entire effort is not devoted to *creating volume* is an increasingly costly investment. Volume is created by concentrating the sales effort on high-potential accounts and by devoting the sales call to selling: selling the product, selling associated products in the line, selling new and different applications, selling special deals or volume lots, selling merchandising or cooperative advertising plans which will themselves create added volume.

In this environment, clerical functions such as order taking, responding to routine inquiries on order status, complaint handling, claims reporting, and the like only interfere with selling and reduce the salesperson's productivity. Companies that do not transfer these functions to their customer service departments are paying a high price in lost opportunities for making sales and, in many cases, an actual reduction in the number of sales calls their field salespeople can make.

In transferring these functions to customer service, of course, management will find some natural resistance among salespersons. In most cases this is a normal reaction that is best dealt with by demonstrating the advantages to the individual salesperson. Obviously, the customer service department has to be as professionally capable as the salesperson in handling these particular functions. Fortunately, it is usually far better in performing them already, and improvement in levels of customer satisfaction will follow as a matter of course.

In addition, from the customer's point of view, there is a lot to be said for having an inside contact at headquarters who is always available and can respond quickly to problems or complaints. Salespeople often are out in the field and can't always be reached, and even then they must relay information back and forth between headquarters and the customer.

The handling of product or application inquiries presents a somewhat different problem, since technical expertise may be required that is not present in the customer service department. Yet some companies are dealing with this by setting up a centralized inquiry-handling function, staffed by appropriate specialists, as part of the customer service activity. Besides actually answering technical inquiries, they identify any that should have sales follow-up, thus helping to increase the conversion rate and relieving the field sales force of the time-consuming job of screening.

Improving the customer-retention rate

The American Management Assns. has established the cost of selling a new customer at five times the cost of retaining that customer once the initial sale is made. A principal reason for this is the relatively high cost of an individual sales call vs. the relatively low cost of typical customer service functions where centralization and economies of scale can help keep costs down.

Yet in many companies, inadequate customer

Neglect of customer service may have harsh consequences: (1) reduced productivity of field selling and (2) potential loss of the company's best sales representatives.

service remains a major reason for losing individual sales as well as losing long-time customers. Poor customer service may be primarily a matter of customer perception, as in the case of employee rudeness or attitude generally; or it may be a measurable quantity in terms of lateness, short shipments, errors on orders or invoices, stockouts, etc. For all practical purposes, the perception of poor customer service is no less damaging than the actuality, and both require correcting.

Yet companies are apt to balk at increasing their investment in customer service for two reasons: (1) they may feel that they are only adding to the cost of a "fulfillment" activity which already costs too much; or (2) they may feel that their market franchise, their pull-through, is so strong that improvements to customer service would only be an unnecessary frill. They do not realize the full implications of customer alienation whether or not actual loss of customers results. For example:

- The customer who has been alienated by attitude problems is less likely than the fully satisfied customer to cooperate during times of shortage, strikes, and legitimate service failures. He is also less likely to accept changes in procedure such as consolidation programs and changes in minimum order size or customer service policies. Such customers are more likely to complain about relatively trivial matters and thus add to overall departmental operating costs.
- Customers who experience repeated customer service problems, regardless of their brand loyalty to the product, may wonder whether the company's quality control in customer service doesn't reflect manufacturing quality control as well, and ultimately lose confidence in the product as well as the company.
- Customers who are having problems at their present level of ordering are likely to think several times before increasing quantities on their purchase orders because they would see this action as possibly magnifying the problems they already have.

But perhaps the most costly consequences of alienation or continuing problems associated with insufficient investment in customer service are also the most subtle:

- Reduced productivity and increased cost of field selling as salespeople are required to cope more and more—at a substantially higher cost—with customer service problems.
- Potential loss of the company's best sales representatives, who will leave when the customer service system continually fails to support their sales effort.

Upgrading sales by volume or product mix

There are two basic ways in which a salesperson can become more productive: (1) by making more calls, thus reducing unit costs per call and, at the same time, selling more product to more customers; and (2) by increasing the size of orders from present customers. Both of these are helped by improving customer service.

As noted above, if customer service assumes some of the clerical functions salespeople are performing, it frees additional time during which the salesperson can either call on more accounts or spend longer with existing customers in order to increase the volume of those accounts. Based on our typical figure of 5 calls per day, or 25 per week, a time gain that enables as few as 2 additional calls per week would represent a significant 8% gain in call rate, and conceivably a substantially larger gain in actual volume. Or, if the salesperson decides to use the added time to step up efforts on existing customers, the rewards may be still greater.

Yet, as a practical matter, when the salesperson isn't there to take the order in person (as is increasingly the case in industrial selling, where many orders come in directly by phone to customer service order-entry personnel), an important element of control in upgrading sales is lost. Some of this can be regained through the pro-

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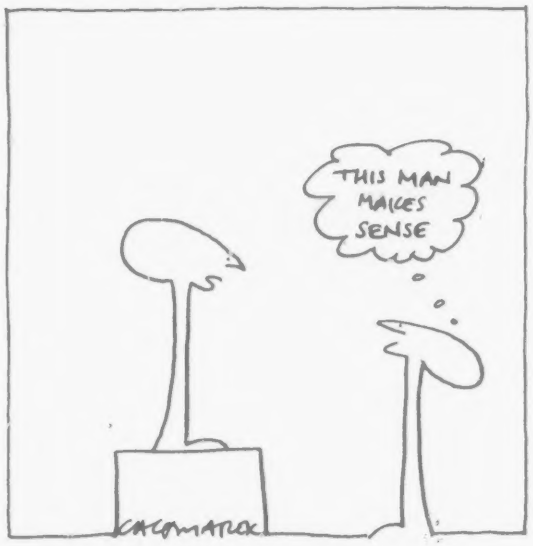
cess of sales review, when the salesperson or manager goes back to the customer with a proposal for increasing the order size. But this presents logistical problems, and has the potential for excessive delays, thus adding to customer alienation.

The answer may be to restrict sales review and personal upgrade efforts by salespeople to certain key accounts, and in the meantime to set up an order-upgrade program to be handled by customer service representatives at the time of performing the order-entry function. This can be done in one of several ways:

- Set a minimum order size that provides savings for customers but requires them to buy in larger quantities, thus in many instances cutting down the frequency and cost of delivering to them; this may be particularly applicable in the case of parts sales, where the possibility of reduced downtime is attractive to customers.
- Train customer service personnel to upgrade orders to the next price or weight break.
- Train personnel to "capture" orders that would otherwise be lost due to stockouts, by suggesting substitute or alternative products.
- Train personnel to sell related products. Example, selling envelopes to a customer who has already ordered printed billheads.

Some companies have gone beyond these measures, of course, and have trained personnel to actually conduct inside selling activities covering customers that normally would not be reached by the field sales force. Many have had significant successes.

The final justification for increasing the corporate investment in customer service is essentially that it's a small amount to invest considering that failure to make the investment can be so costly in terms of reduced sales productivity. Furthermore, as selling costs continue to soar, greater value is attached to all customers: they are more expensive to get—and costlier still to lose.



"OF NOTHING, NOTHING IS MADE."

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Managing costs for more productive selling

Bless that computer service

Give the salespeople light and they will find their own way

By JERRY IVICE
President, Selzer-Ivice Sales, Inc.

For anyone, the key to insuring annual growth is getting better information, especially about product and salesperson performance. But getting data is a costly adventure, particularly for a small company like ours, a manufacturers' rep firm selling automotive and electronic products to some 500 OEM and end-user accounts in Illinois, Indiana, and Wisconsin. In fact, we long ago concluded that the only way to manage it would be by adding many hours of paperwork or purchasing a computer. Not for us.

Instead, we relied on sales analysis the simple way: generating by hand simple reports that told each of our 12 salespeople how much he was doing with each of our factories and also sending each copies of his customers' invoices, hoping that he'd take it from there. The more we grew, the longer this took, and we still weren't getting the kind of information we needed to keep our 25%–30% annual growth. The solution for us is detailed computerized monthly sales analysis reports from a data services company.

Using various choices proposed by the Service Bureau Co. (SBC), a national computer services vendor and division of Control Data, Selzer-Ivice developed a system that takes our monthly sales data and presents it in four different reports:

1. *Manufacturers-Customers Analysis,* which is a listing of sales by product line for each of our customers. This tells how we are doing with each customer and each manufacturer represented.

2. *Sales Report by Customer and Manufacturer,* which presents a breakdown of each salesperson's sales, by customer and by product line to that customer. Included is the date of each customer's most recent invoice by product line.

3. *Sales Report by Manufacturer,* which summarizes each salesperson's total volume with each manufacturer. This report identifies each salesperson's strengths and weaknesses by line handled.

4. *Manufacturer-Salesperson Analysis* (which is similar to the Sales Report by Manufacturer), arranged to show each manufacturer's sales by each of our salespeople.

The author goes over reports from data services firm with Claudette Silovich, internal sales coordinator.

Data entry begins with copies of the commission statements Selzer-Ivice receives from its clients. Information from each month's statements is entered onto SBC-designed spread sheets, which are sent to SBC's local office for processing. When the reports are returned, they include a new input spread sheet on which the names of manufacturers and customers are printed, along with each customer's year-to-date sales. This makes it a simple clerical matter to fill

in the blanks with new sales data as the month progresses.

All reports show the current month's results, year-to-date figures, and a comparison with the previous year. Because speed is less important than completeness, we deliberately delay sending input data to SBC until about six weeks after the end of each month, to make sure that all the commission statements for the month have come in from the manufacturers. All four reports reach us together. Once a month they are analyzed and reviewed at individual meetings with each of our salespeople.

An unexpected bonus

We discovered that including the most recent invoice date provides us with an unexpected bonus. When a salesperson is getting ready to talk with a customer, he normally has to plan to *sell* something. Not knowing what or when the customer has or hasn't bought, there's no way to know what to push or where to push it. The new system lets the rep pinpoint which lines a customer isn't buying (or hasn't bought recently). A drop-off in orders also warns the salesperson of possible problems before they get out of hand. Salespeople now know when to raise questions with their customers about slow-moving lines and when to bring new lines to the customer's attention.

The reports enable us to see all the facts in much clearer detail and catch possible problems at a much earlier stage than when we had to rely completely on the individual salesperson's ability to handle the job of analyzing his performance. They also give us a handle on the strengths and weaknesses of each of our people so that we can help them improve their sales potential.

What we have learned—and will learn—about ourselves is stimulating our growth rate. The new system continues to impress our manufacturers, and we are opening more new accounts than ever.

In short, this introduction to data processing has helped us relearn one of the great truths of sales productivity: In selling, what matters most is knowing *precisely* what's going on.

The author has been an independent sales rep for the past 25 years and is a member of Automotive Affiliated Representatives. A pilot in World War II, he attended Gettysburg College.

Preview:

Total selling expenses as a percentage of company sales

Industry	1980	*1979*
Consumer goods		
Apparel	N.A.	11.2%
Durable goods	5.2%	5.1
Ethical pharmaceuticals, surgical supplies & equipment	8.4	13.5
Food	3.2	5.4
Major household items	5.2	2.8
Proprietary drugs and toiletries	14.9	16.1
Industrial goods		
Automotive parts & accessories	3.1	4.0
Building materials	2.1	2.8
Chemicals & petroleum	6.5	N.A.
Computers, office & educational supplies & equipment	10.0	N.A.
Containers, packaging materials, & paper	2.4	N.A.
Electrical materials	2.0	5.6
Electronics and instruments	4.1	N.A.
Fabricated metals (heavy)	3.1	3.4
Fabricated metals (light)	3.5	4.0
Fabrics	N.A.	4.0
Fabrics & apparel	5.1	N.A.
Instruments	N.A.	7.3
Iron & steel	1.5	1.4
Machinery (heavy)	3.6	4.3
Machinery (light)	4.2	5.5
Office supplies & equipment	N.A.	10.0
Paper	N.A.	2.1
Printing & publishing	10.9	10.4
Rubber, plastics & leather	3.2	1.7
Tools & hardware	5.5	5.6

Note: Selling expenses cover cost of median compensation of salespeople and sales management, travel, lodging, meals and entertainment, advertising, and promotion. One of the major difficulties encountered in gathering such information is that wide differences exist between companies in the definition of selling expenses and the costs included in such figures. In addition, some of the differences between years reflect changes in the organizations that reported data.
N.A.—Not available in reporting year.
Source: American Management Assns., *Executive Compensation Service.*

Selected tables from S&MM's 1981 Survey of Selling Costs*

Sales force selling expenses as a percentage of sales in major industries

	Compensation		*T&E Expenses*		*Total*	
Industry	*1980*	*1979*	*1980*	*1979*	**1980**	*1979*
Consumer goods						
Apparel	N.A.	3.3%	N.A.	N.A.	**N.A.**	3.3%
Durable goods	3.0%	1.1	1.0%	0.8%	**4.1%**	1.9
Ethical pharmaceuticals, surgical supplies & equipment	4.7	3.6	2.1	1.0	**6.8**	4.6
Food	1.3	1.7	0.5	0.8	**1.8**	2.5
Major household items	1.4	2.2	0.4	0.4	**1.8**	2.6
Proprietary drugs & toiletries	3.4	1.8	1.0	0.5	**4.4**	2.3
Industrial goods						
Automotive parts & accessories	1.7	2.5	0.7	0.9	**2.4**	3.4
Building materials	1.2	1.2	0.4	0.5	**1.6**	1.7
Chemicals & petroleum	2.1	N.A.	1.0	N.A.	**3.1**	N.A.
Computers, office & educational supplies & equipment	5.1	N.A.	1.9	N.A.	**7.0**	N.A.
Containers, packaging materials, and paper	1.3	N.A.	0.7	N.A.	**2.0**	N.A.
Electrical materials	1.4	2.2	0.5	0.9	**1.9**	3.1
Electronics & instruments	2.4	N.A.	0.6	N.A.	**3.0**	N.A.
Fabricated metals (heavy)	1.7	1.6	0.6	0.5	**2.3**	2.1
Fabricated metals (light)	2.1	1.8	0.9	0.6	**3.0**	2.4
Fabrics & apparel	1.5	N.A.	0.4	N.A.	**1.9**	N.A.
Instruments	N.A.	2.0	N.A.	1.2	**N.A.**	3.2
Iron & steel	1.0	0.8	0.6	0.1	**1.6**	0.9
Machinery (heavy)	2.0	1.9	0.7	0.7	**2.7**	2.6
Machinery (light)	2.9	2.1	0.8	1.0	**3.7**	3.1
Office & educational supplies & equipment	N.A.	11.0	N.A.	1.0	**N.A.**	12.0
Paper	N.A.	1.1	N.A.	0.6	**N.A.**	1.7
Printing & publishing	6.4	6.1	1.3	1.8	**7.7**	7.9
Rubber, plastics & leather	1.2	1.0	0.7	N.A.	**1.9**	1.0
Tools & hardware	2.7	2.3	1.2	0.9	**3.9**	3.2

Note: Includes only salespeople's total compensation plus their expenses, that is, travel, lodging, meals, and entertainment. It should be noted that some of the differences between years reflect changes in the organizations that reported data. Also, percentages in this table are percentages of sales by the sales force.
N.A.—Not available in reporting year.
Source: American Management Assns., *Executive Compensation Service.*

*Publication date, Feb. 23, 1981

Managing costs for more productive selling

Preselling by telephone

Mid-Continent keeps costs bottled up

Mid-Continent Bottlers, Des Moines, IA, has good reasons for reviewing its distribution and marketing strategies. Besides having to deal with rising labor and fuel costs, the company has the added expense of complying with Iowa's environmental law requiring it to use returnable bottles. These costs are forcing it to look for more cost-efficient means of selling, and it has come up with a program that promises significant savings.

Mid-Continent is a wholly owned subsidiary of Universal Foods Corp. of Milwaukee, and is part of Universal's Beverage Group, also based in Des Moines. The Beverage Group serves six states—Iowa, Nebraska, Kansas, Missouri, Illinois, and Michigan—and had sales of over $55 million last year. It produces and distributes 14 nationally advertised soft drinks, including 7-Up, RC Cola, Dr Pepper, Squirt, Canada Dry, and A&W.

'A guess-and-by-gosh way to sell'

For years, the company relied solely on route salespeople to sell and deliver its products. "It was a guess-and-by-gosh way to sell," says Lane Barnett, vice president and general manager of the Beverage Group's Des Moines region. "It was an approach that had a lot of drawbacks.

"For instance," he continues, "we never knew what customers wanted until our trucks pulled up in front of their place of business. If we hadn't loaded the right brand or package, we were out of luck—how can you sell something you don't have?"

Under the old system, drivers were often rationing products because they didn't have adequate supplies on their trucks. Or they would arrive in a town and find the customer didn't need anything that particular week. Usually, they returned with close to half of the merchandise they started out with.

"It clearly wasn't the most efficient way to operate," Barnett says. "In fact, with fuel costs getting so out of line, it was getting harder and harder to justify operating at all, even on an infrequent basis, in the very rural areas."

About a year and a half ago, the Des Moines region began looking for a better way of doing business. The result was a presell soft drink program designed to streamline sales and delivery efforts and help hold the line on fleet costs.

Under the program, larger accounts were to be handled in advance by a presell person making direct sales calls. The other three-fourths of the accounts were to be taken care of by a small staff of specially trained telephone salespeople working out of the Des Moines plant.

Well aware that customer acceptance of the program was vital to its success, Barnett's people began notifying its accounts of the change well before it went into effect. "We told them what we were doing in detail and why we were doing it; that it simply was getting too expensive for us to service them adequately any other way," Barnett says.

"We also told them our telephone salespeople would be out to meet them personally (see box, opposite). We knew that to take that direct contact out altogether would be a mistake. People like to know whom they're dealing with and what they look like. Our tel-sell people should be able to relate to the physical setup at their customer's location as well."

Saving one cent per case on gasoline

All the while, the emphasis was on better service. Customers were promised orders within 48 hours and were told that the days of rationing or waiting for an order were over.

"We made good on those promises, too," Barnett says. "What's more, through better planning of deliveries, we were able to do away with four routes and several special delivery trucks. As a result, our gasoline costs per case are not up to the startling degree that costs per gallon are (43%), and we figure our presell saves us approximately one cent per case over traditional route sell in gas cost."

The savings on just the fleet costs make this program worthwhile, but there are other, more important, advantages to preselling. It has enabled the region to cut its returned inventory on trucks from 45% to 5% or less; it is largely re-

sponsible for the smooth flow of products through the plant; it has enabled management to keep better track of empty, reuseable bottles that are to be returned and to schedule pickups for them; and, most importantly, it enables the company to concentrate on selling its total line of products, including secondary flavors and brands. Previously, products were constantly out of stock on the trucks.

"In short," says Barnett, "the presell program is doing everything we hoped it would do and more." Universal's Beverage Group is so sold on preselling, in fact, that it is using a presell program in two other regions: Flint, MI, and Kansas City, MO. Presell is being evaluated for use throughout Universal's entire territory.

Mid-Continent's Lane Barnett keeps costs down by selling his company and his customers on preselling.

"How long will it help us hold down costs? We can't say," Barnett adds. "But one thing is for certain. The presell program works, and we wish we'd started it sooner."

Not mere order takers on the line

How do you successfully set up a telephone sales program? The following advice comes from Ron Holsinger, Des Moines sales manager for Universal Foods' Beverage Group.

First, tell your customers what you're doing and why. "In our case, with rising fuel costs, we couldn't afford to service the rural areas any other way," says Holsinger, "and that's what we told them." Second, hire people to call who aren't just order takers. They should be good at sales. These jobs are not dead ends, but stepping stones to better things. In addition, he suggests that you:

- **Make sure your telephone salespeople have adequate training.**
- **Assign your callers to the same customers; clients like to deal with a familiar voice.**
- **Send your callers out to visit with customers in person at least four times a year. Face-to-face contact is invaluable, but unfortunately, many companies with telephone sales programs don't do it. Then they wonder why their program isn't working as smoothly as they hoped. Not only are the visits good for business, but they give callers a feel for such things as the competition and customer displays.**
- **Use the positive approach in your calling. Don't ask customers if they need anything—ask them what they need. Always attempt to upgrade orders or cross sell.**
- **When it comes to making delivery commitments, underpromise. Obviously, it's better for merchandise to arrive before the promised time.**
- **Expand your horizons. Don't just go after existing business, use the phone to introduce new products, to open new accounts, to make collections.**

Before you get very far with your telephone sales plans, contact your local Bell System company. Marketing specialists there can help you design your program and train your people. They can show you what to look for in hiring personnel and even assist you in designing a soundproof calling room.

Finally, make sure you coordinate your orders with your distribution points. You can have the best telephone sales program in the world, but if you can't deliver the goods, you may lose customers.

Managing costs for more productive selling

A guide for field salespeople

Controlling territory time costs

By HOWARD A. BERRIAN
President, Berrian Associates, Inc.

Time is the major resource investment that you make in your territory. Your return on investment depends upon how well you plan and carry out that investment. You cannot afford to waste time. It must be used where it will help you best achieve your territory's growth and profit objectives.

It is an accepted fact that selling hours (payoff time) are becoming fewer. More time is being spent on nonselling activities: travelling, waiting, servicing, etc. Figure 1 is a "guestimate" of what a salesperson's daily time expenditure looks like.

Figure 1

Average expenditure of time

Payoff time (20%)

This is the time when you are with your client, customer, or prospect selling your product or services. To improve the return on payoff time, you have to:

- Invest your time in those accounts with the most potential in volume and profit.
- Increase your selling effectiveness in face-to-face encounters.

Organizational time (25%)

Time required to handle reports, correspondence, filing, cataloguing, and other administrative tasks assigned by management. Improvement in this time investment comes about by:

- Better planning
- Systemizing your office work.

Investment time (55%)

Time invested in travelling, waiting, and servicing. A salesperson will find these three activities consuming an ever-growing amount of time. They can't be eliminated. They are part of every salesperson's life. To improve your return on this segment, you must:

- Plan this time expenditure.
- Use the travel and waiting time for productive thinking and work.

To find out how you spend time, clock an entire day's work. Do it for a week to provide you with an even clearer picture. A simple form blocked out in half-hour segments and showing your major activity areas can be used (Figure 2).

As you work your day, check off in half-hour segments what you do. At the end of the day, add up the time per activity and you will have a picture of how your time has been spent. Do it for a week and you will have a more valuable audit. Then adjust your activities to spend more time in face-to-face selling. Increase your payoff time by better time management.

Allocation of your time to your accounts is a key to achieving your growth and profit objectives. By establishing a Time Investment Value (TIV) for an account, you can reach a more valid decision about the amount of time necessary to develop the account to its fullest potential. A five-step effort will help you arrive at a TIV for your accounts.

Step 1. Determine personal direct cost investment (PDCI)

You are a variable cost, relative to your territory. That cost varies with sales volume and your coverage of your territory. The Direct Costs (DC)

Figure 2

Time analysis form

Time	Activity				
	Sell	Service	Travel	Waiting	Organization
8:00–8:30					
8:30–9:00					
9:00–9:30					
4:30–5:00					
5:00–5:30					
5:30–6:00					

that are charged to you are salary, bonus/commissions, travel, entertainment, and miscellaneous expenses. An example:

Salary	$21,000
Bonus/commissions	2,280
Travel	9,110
Entertainment	3,200
Misc. expenses	410
	$36,000

Step 2. Determine cost per working hour (CPWH)

There are approximately 2,000 working hours in a year (250 working days multiplied by 8 hours a day). To arrive at the CPWH, the following formula is used:

$$CPWH = \frac{DC}{WH}$$

$$CPWH = \frac{\$36,000}{2,000}$$

$$CPWH = \$18$$

Step 3. Determine cost per selling hour (CPSH)

Payoff time is when you are selling the account in person. These selling hours are your most productive investment hours. A guesstimate is that the salesperson invests only 20% of his time in selling. Thus you don't have 2,000 hours of selling time—only 400 selling hours (SH). By applying the following formula, CPSH is ascertained:

$$CPSH = \frac{DC}{SH}$$

$$CPSH = \frac{\$36,000}{400}$$

$$CPSH = \$90$$

Step 4. Determine break-even sales volume (BESV)

Because you are a cost, that sum must be recovered from sales revenues before you can determine your profit. The sales volume required to offset your direct costs is called Break-Even Sales Volume (BESV). Your direct costs have to be covered by the gross margin made on your sales volume. Gross margin is the difference between production costs and selling price. Gross margin percentage is the difference between sales and production costs expressed as a percentage of sales. For example:

Sales	$200,000
Production costs	−160,000
Gross margin	$40,000
Gross margin % =	$ 40,000 / 200,000
Gross margin % =	20%

To arrive at a Break-Even Sales Volume, this formula is used:

$$BEV = \frac{DC}{GMP}$$

$$BEV = \frac{\$36,000}{20\%}$$

$$BEV = \$180,000$$

With the illustration used in Steps 1 through 4, the BEV of $180,000 shows:

- Sales volume needed to cover direct costs.
- Salesperson producing a gross margin of 20%.
- Sales volume over $180,000 is the salesperson's contribution to profit.

Step 5. Determine time investment value (TIV)

Preparing a call-frequency schedule is a major task for every territory manager. By setting proper call quotas for accounts, your chances of reaching your territory growth and profit objectives are greatly enhanced.

In the first part of this article it was suggested that you conduct a workload audit that would show you where your time is spent each working day. The workload audit also indicates how many calls you average per day. Whether the number is 4, 6, or 12 is not important. What is important is whom the calls are made on.

Decide on the number of acceptable average

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calls per day, multiply that number by 250 working days, and you have the total number of sales calls available to you. An example:

Average number of calls/day = 5 × 250 = 1,250 Available Sales Calls

Next, consider the number of Heavy-User (HU), Medium-User (MU), and Light-User (LU) accounts in your territory. This total must then be related to the available sales calls per year. As an example, here is a territory with 200 accounts categorized as follows:

Accounts	*Share of Profit and Volume*
30 HU (15%)	= 65%
40 MU (20%)	= 20%
130 LU (65%)	= 15%

Combining the 200 accounts, the available 1,250 sales calls, and the suggested call quota percentage, we can arrive at the following call frequency quotas for the 200 territory accounts:

Accounts	*Number*	*Suggested Share of Time Available*	*Calls/ Acct/Yr.*
HU	30	40%	16.6
MU	40	20%	6.2
LU	130	40%	3.8
	200	100%	

Out of the 1,250 available sales calls, a percentage has to be allocated for prospecting. This percentage depends upon:

- Number of prospects available.
- Profit and volume value of prospects.
- Time demand by Heavy-User accounts.
- Competitive pressures in Heavy-User accounts.
- Necessary contacts in Heavy-User accounts.

Previously, we noted that you should determine Time Investment Value (TIV) for your accounts. Once the account TIV's are established, you can make a comparison of the value of each account. With this comparison, you can allocate time differently per account (establish different call quotas) depending upon each account's worth or potential worth.

Having the direct costs and the Break-Even Volume determined, a time investment value (TIV) can be fixed for your time. The time investment value formula is applied to accounts to determine which need a heavier investment because of their value. The time investment value (TIV) formula is as follows:

$$TIV = \frac{GM \text{ (Gross margin)}}{DC \text{ (Direct costs)}}$$

Here are two examples for two accounts.

Account A $TIV = \frac{\$40{,}000}{\$36{,}000}$

$TIV = 1.1$

Account B $TIV = \frac{\$83{,}000}{\$36{,}000}$

$TIV = 2.3$

It is immediately apparent that Account B is almost twice as profitable as Account A (it has a TIV of 2.3 versus Account A's 1.1). Thus Account B should receive twice the time investment because of that value.

Placing a numerical value on time, per account, guides your time investment planning. In setting call quotas for your accounts, the Heavy-User account concept is vital. But you must also keep in mind account *development*. For full potential development, some of your accounts will require more calls than the TIV formula shows. Development-time call quotas should be established for accounts that require it if full volume and profit potential is to be achieved. Consider allocating development-time call quotas when setting call quotas for all your accounts.

A final word of caution: When setting call quotas, do not disregard your personal judgment. Your approach should not be totally mathematical. You know each account, each situation. That personal knowledge must be considered when establishing call frequencies.

Managing costs for more productive selling

Telephone + Computer=Hot Leads

By HOWARD L. GORDON
Principal, George R. Frerichs & Associates

On any one day there is a certain percentage of the market that is ready to buy. One of the first steps toward more productive selling, then, is to locate hot prospects before they buy from someone else. No matter how diligent your sales effort, at least a part of the active market is almost always unknown to the salespeople.

It's no secret that the more times a ball player has at bat the greater his chances of getting a hit. The same principle applies to salespeople. Yet a 1977 survey by McGraw-Hill shows that the average industrial salesperson spends just 3¾ hours a day face-to-face with customers—one-half hour less per day than the 1964 average. Industrial salespeople simply cannot cover their territories adequately enough to find all the prospective new business because they're too busy servicing the accounts they have. Also, getting up in the morning and making cold calls is tough. And, in the majority of cases, there's no guarantee, even if the call is made as a follow-up to an inquiry, that the prospect is actually ready to buy.

What's needed to maximize return on the manpower investment are methods to identify ready-to-buy prospects well in advance, so that salespeople neither waste their time chasing smokestacks nor fail to develop the profitable new accounts that any marketer needs to keep growing.

Consider, for example, the program tried out recently by a major capital-goods company. The program, dubbed the I/Q System (for Identify and Quantify) uses the telephone and the computer to develop qualified leads for dealers and field salespeople. In a six-month test, it returned a $2.22 gross margin to the company for every $1.00 invested, not including the return on increased after-sale parts and service business.

There are many ways of using the phone in prospecting. One of the most common is to screen and classify inquiries received as a result of media advertising, mailings, and trade show contacts. I/Q takes a different tack in that the phone interviewer initiates the prospecting by calling a list of current and potential users and asking them a series of questions. In this case, the list was developed by combining industry data with Dun & Bradstreet information for companies in selected SIC groups whose business activity, annual volume, and number of employees met the marketer's criteria.

Before the program began, weeks were spent refining the questions. The objective was to insure that when the program kicked off, the data would be uniform for every telephone interviewer. Also, management wanted to gather the maximum of practical market intelligence during the 10–15 minute interview. Because the questions are proprietary, they can't be listed here, but they explored the following areas:

- whether the interviewee uses the type of equipment the marketer sells
- the number of pieces of such equipment used, as well as its age and maker
- whether it's serviced internally or externally
- when the interviewee would next buy such equipment
- the name of the decision maker.

Because this was a test program and the client uses two-step distribution, representative dealers had to be selected and convinced to participate. Participating dealers had to agree to two things: (1) to pay 30% of the test program's costs (averaging about $20,000 per market) and (2) to report results of all leads produced for them by the phone program. They were assured that leads would be paced at about four to five hot leads per salesperson per week so that the sales force could maintain service levels on current accounts while going after the new business.

Once the system was in place, the names of hot leads (prospects who said they would make a buying decision within three months) were telephoned to field salespeople. Longer-range pros-

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pects were fed to dealers as part of a weekly analysis of the territory canvas.

The program's key goal was to test the validity of the I/Q approach. Management wanted to find out the following:

- what percentage of the prospects were unknown to the salesperson
- what percentage were known but the salesperson was unaware of their current need or problem
- whether the information the phone interviewer elicited from the prospect tallied with the information already known or extracted by the salesperson on a follow-up call
- what percentage of prospects were converted.

Getting that information proved more of a challenge than anticipated. Initially, many salespeople considered I/Q a threat to their jobs and had to be convinced, over time, that it was intended to assist them rather than replace them. Also, salespeople tend to be strongly independent. They're reluctant to spill the whole truth about their territories to anyone, especially to their managers. Those who conducted the follow-up work found that they had to ask the sales managers to leave the room before the salespeople would open up about their findings. Even then, it took a combination of hand-holding and interrogating them like attorneys.

Here are the results, which vary depending on the dealership:

- 10%–28% of the prospects who planned to buy new equipment within the next 12 months were previously unknown to the salespeople.
- 7%–19% of the prospects were known to the salespeople but they had been unaware of the prospect's current need or problem.
- Zero to 8% of the prospects were converted within nine months.

Also, in 80% of cases, the interviewer's information tallied with the dealer salespeople's.

The program also produced names for an updated mailing list to which dealers can send mailings targeted to such things as service, the advantage of replacing equipment of a certain age, or competitive advantages of the equipment he sells vs. that which the prospect owns.

Although as yet there has been no decision on whether to continue the program, the marketer, dealers, and dealer salespeople agree that it works. I/Q is not a substitute for advertising or field selling, but a partner in the total promotional mix. Advertising creates and maintains favorable disposition with customers and prospects. I/Q finds the ready-to-buy prospect. Field sales assures, counsels, helps the customer make the product work, and best of all, closes the sale.

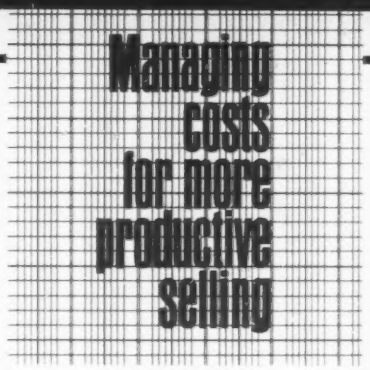
Du Pont gets a handle on T&E

Until four years ago, the Agrichem Marketing Div. of Du Pont kept track of the travel and entertainment expenses of its more than 200 employees—most of them salespeople—by hand. Once every six months or so the records were put together and compared with the budget, but as Dan O'Connell, manager of physical distribution and sales control, describes it, even this process was *ad hoc*. The division rarely knew when expenses were close to budget, near industry norms, or just generally reasonable.

Four years ago, the division, along with other Du Pont divisions, implemented a travel expense management program designed and managed by the PHH Group, Hunt Valley, MD. Under this program, the division sends the monthly travel expense reports of its employees—which include both travel items for which the employees will be reimbursed as well as other items that were charged—to PHH, which immediately feeds the data into its computers. On the average, 15 days after a given month, the division receives from PHH a series of reports that show division-wide travel expenses for the month and the year to date and compares them with budget figures for the same time periods. (The expenses are broken down under such headings as meals, lodging, car rental, and any other the company might like.) Variances from the budget are also shown. Other forms show individual employees' travel expenses and provide the same kind of comparisons. Finally, the division is provided with a travel expense summary for each individual that compares expenses for the period and gives monthly averages for each category of expenses. For example, it shows that an employee's average lodging cost for a particular month was $40 a night while his year-to-date average was $38. Whenever an employee goes over budget, PHH places a U for unfavorable next to the amount.

PHH also provides a report that shows average costs for each travel category for other companies in the chemical industry. This way O'Connell has yet another basis for comparison. Says he, "It has become very easy for us to see who's going off the deep end and exactly where things are out of line."

He notes, however, that the information must be used to be of value. "Sometimes the managers neglect it. Then we have to get on their backs." Otherwise, he says, the expense management program has been "most productive" for the division. "We are no longer in the dark about our own travel and entertainment costs," he says.



Alternative channels of selling

A funny thing happened on the way to the computer store

By THAYER C. TAYLOR
Senior Editor/Management Sciences

It's ironic, but one of the most desperate battles against the soaring cost of sales and distribution is being fought by an industry that has won a reputation for making business more productive. These are the manufacturers of computers and office equipment that collectively have lowered the cost of gathering, processing, and transmitting information of every kind. Boxed in by high selling expenses, they are assessing the role of their direct sales forces and venturing into retailing to tap the small-business market.

The move is especially significant because selling electronic products is a costly proposition. S&MM's *1980 Survey of Selling Costs* (Feb. 25) reports that selling costs siphoned off 19% of computer firms' revenues, the highest percentage of any industry. As a result, marketers long accustomed to direct selling are looking for an alternative. Consider the following trends:

- Vendor-operated retail stores are pushed by three major companies: Digital Equipment Corp. (DEC), Maynard, MA, the minicomputer leader; Xerox, Stamford, CT, the No. 1 seller of office copiers; and Control Data Corp. (CDC), Minneapolis, which up to now hitched its fortunes to medium- and large-sized customers.
- Back-door approaches to retailing by Hewlett-Packard (H-P), Palo Alto, CA, and Data General (DG), Westboro, MA. In order to minimize up-front investment, H-P is experimenting with independent computer stores and DG has created a general distribution division to push sales to mass merchandisers and computer stores.
- IBM's General Systems Div. converts 80-odd branch operations to computer centers that combine the functions of a retail store and branch office. A heavy newspaper advertising campaign generates walk-in traffic, and telephone selling is used for the follow-up. The division's 5120 low-cost computer system and 5260 point-of-sale system will also be sold in the two retail stores opened in the Philadelphia and Baltimore areas by the Office Products division last month.

All of the electronic manufacturers testing the retail waters declare the same rationale. It's cheaper than direct selling because the salesperson does not waste time making several visits to a prospect. Furthermore, a prospect who enters the store is probably in a buying mood, they say, and one or two salespeople in a store can handle many more customers in a day than the same number of field reps can call on. However, none of the marketers has offered to provide figures showing that retail selling is actually cheaper. Thus there's no indication of how much they spend for bricks and mortar, hiring and training personnel, stocking inventory, advertising to pull in customers, and support services.

Will he get off his seat?

There's another question, too: Will the small businessman, accustomed to having a salesperson demonstrate equipment in his office, get up and go to a store? Al Cady, general manager of CDC's new consumer and small business market operation, says wryly, "We're all shooting an expensive set of dice on that one."

NCR, Dayton, OH, apparently has decided that businessmen don't change easily. The company ran two business centers in Cincinnati for a year but closed them down last spring because, an insider confesses, "they weren't cost-effective at all." However, industry observers question the depth of NCR's commitment, contending it did little advertising to generate traffic, and used inadequately trained part-time store personnel.

The dash into retailing is a dramatic turnabout for vendors. Jerry Carp, senior consultant, Input, Saddle Brook, NJ, a research house specializing in high-tech industries, recalls that when he made a survey of alternative distribution channels in 1978, electronics manufacturers turned thumbs down on the idea. Now, they find they must at least give it a try, and they're trying a variety of approaches as can be seen by the operations that DEC, Xerox, and CDC are mounting.

DEC's 25 stores (it recently closed a Detroit

outlet and one in New York City's Wall Street area) carry only the company's low-end WS78 machines that combine word and data processing, plus related peripherals and some independent terminals. "We sell only the products we know best and can support," says Gerald Moore, vice president and general manager of the retail products group. "In this market, support is as critical as the purchase because it is not computer-sophisticated to start with." On average, each DEC store has a manager, administrative assistant, applications specialist, and one to three salespeople.

Xerox's Robert F. Reiser, president of the Retail Markets Div., vows to build a network of "supermarkets for the office" by the middle of next year. Among the 1,000 items his 13 outlets carry are:

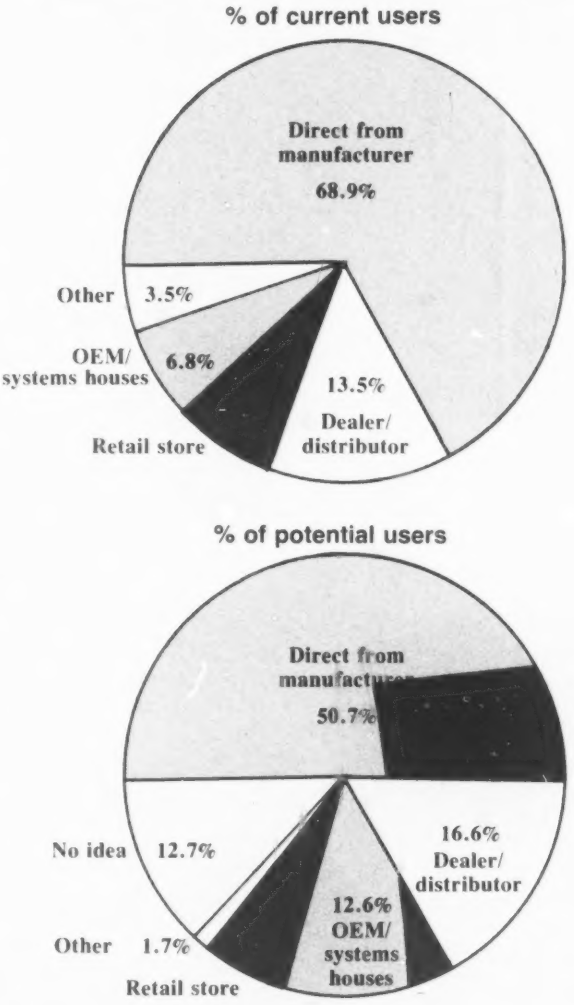
- Familiar Xerox low-end products, such as copiers, facsimile machines, and Diablo computers.
- A wide assortment of gear made by other manufacturers, such as H-P calculators, Panasonic recording-dictation equipment, Apple computers, and even a wet-paper copier imported from West Germany.
- Products made for the Xerox label by outside vendors, such as pocket calculators by APF Electronics and typewriters by Remington Rand.

Both DEC and Xerox fend off queries on the potential roadblocks they may encounter. For example, some observers wonder if the small businessman will travel to a DEC store that offers only one line of equipment, even though the success of Tandy's Radio Shack in selling its advanced models to small businesses suggests he will.

Dealers may cry "Halt"

If Xerox's Reiser lives up to his promise to blanket the biggest metro markets with stores, outside vendors that supply his stores may face a backlash from their own dealers and distributors. Also, Xerox's own direct salespeople may wonder why they're not given a crack at selling some of the fast-moving private-label goods. This point could be academic, however. A Xerox source reveals that half of the sales personnel in the stores (the average is five per outlet) are transferees from direct sales who applied for the job. This may suggest that Reiser has been given a megabucks budget to fund the stores or that he has something more than the small-business market in mind.

Where small businessmen plan to buy computers



Source: Venture Development Corp., *The Small Business Computer Industry: A Strategic Analysis.*
Sales & Marketing Management.

Survey of small businesses shows that computer stores may get a smaller share of the pie in the future.

CDC's Al Cady definitely has more than small businesses in his sights. Contending that CDC will have at least 100 outlets in place by the end of 1981, he says he plans to combine the best of the DEC (services) and Xerox (product diversity) approaches. Significantly, he says, "We will address two basic markets: the small businessman who needs service on a wide range of functions and the consumer who is looking for computer-based education systems, such as our PLATO, to improve certain skills."

Although CDC does not manufacture small computers, it will make up for that by selling a

business-oriented, entry-level minicomputer that Data General will unveil shortly. It also offers microprocessors made by Ohio Scientific, which itself is testing in selected Montgomery Ward outlets. Says Gordon C. Chichester, president of Focus Research Systems, a West Hartford, CT, researcher specializing in data and word processing, "CDC has a strong asset in the broad range of peripherals it makes that are suitable to a small business environment."

Most service-minded of all

CDC is unusual among the major mainframe makers in that services, rather than hardware, generate the bulk of its revenues, and Cady intends to capitalize on that. "We'll be more than just a computer store or a 'supermarket,' " he says, "and we'll offer more than just hardware and software." He ticks off the long list of CDC service-oriented operating units whose expertise will be used to woo small businesses, including Cybernet (time-sharing), Commercial Credit (insurance and financial services), Business Advisors (consulting), and even temporary office help, equipment leasing, and import-export assistance.

Cady envisions a hub store in each of the 22 leading metro markets, where prospects can sample the complete array of hardware, software, and services. Linked to them will be a network of satellite stores, with a more limited menu. To establish a beachhead in the consumer market, Cady will have learning centers in the hub stores where people can take PLATO-based self-instruction courses on basic high school subjects and other skills. The centers will also have courses for small businesses, such as *The Psychological Approach to Selling* and *Management Training for the Career Woman*.

All three manufacturers plan heavy advertising to bring small-business executives into the computer stores. For example, CDC plans to spend $2.3 million next year. At DEC, each store has its own cooperative advertising budget. In addition, a corporate advertising group at headquarters is experimenting with vertical trade show promotions, radio spots, and sweepstakes focussed at a particular market. Xerox relies primarily on saturation direct-mail, using "every kind of business list we can get our hands on," a company source says.

All that and more may be needed to entice the quarry into the stores. Market research analyst Karen E. Rosenfeld, of Venture Development Corp., a Wellesley, MA, research firm, says that a survey of small-business computer users found that 7.3% of respondents bought their machines at a computer store and, even worse, only 5.7% of *potential* users will buy their units there (see accompanying chart).

CDC's Cady admits the going won't be easy. "The market is there—some 10 million businesses, each with less than 20 employees and under $10 million in revenues," he insists. "But the market won't be opened up as fast as most people think. It will take a long education process. As the software becomes more easily understood and available, however, the small-business computer will eventually be as commonplace as the electric typewriter and the office copier." On such appealing visions the dice roll merrily.

Bringing customer service home

No matter how sensible it seems, it's usually risky to cut back on a sales or service function in the field even if you're certain of providing customers with the same degree of tender loving care from a central office. Firestone Tire & Rubber was well aware of the hazards last year when it centralized customer service for its Dealer & Stores Operations: tire dealers are used to having representatives of all leading manufacturers near at hand. (For other Firestone reorganization news, see page 20.)

Nevertheless, both sales and service have improved under the program called Fast Action Customer Telephone Service (FACTS), says James W. Tyson, manager of the 36-person customer service staff in Akron. His department is divided into two types of telephone coordinators: (1) outbound callers who phone every dealer at least once a week to take orders for immediate shipment, and (2) order analysts who handle inbound calls and are trained to deal with a variety of product and service questions.

"Our dealers seem satisfied with the information on availability," says Tyson noting that the company continues to ship tires from the same 19 warehouses it has always used. The difference, of course, is that where a local customer service rep formerly often had trouble putting his hands on a hard-to-get item, the present staff can check all 19 locations instantly to see if it is available.

This sort of flexibility pays off, says Tyson, as does the discipline of having telephone people follow up regularly with specific accounts. There are fewer stockouts, he says, "and business just seems to improve when dealers are expecting that call."

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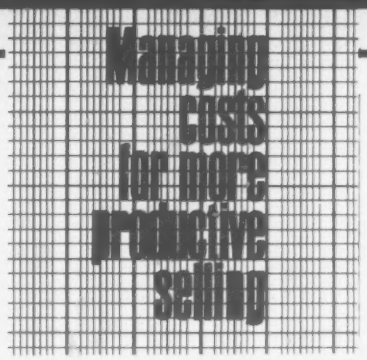

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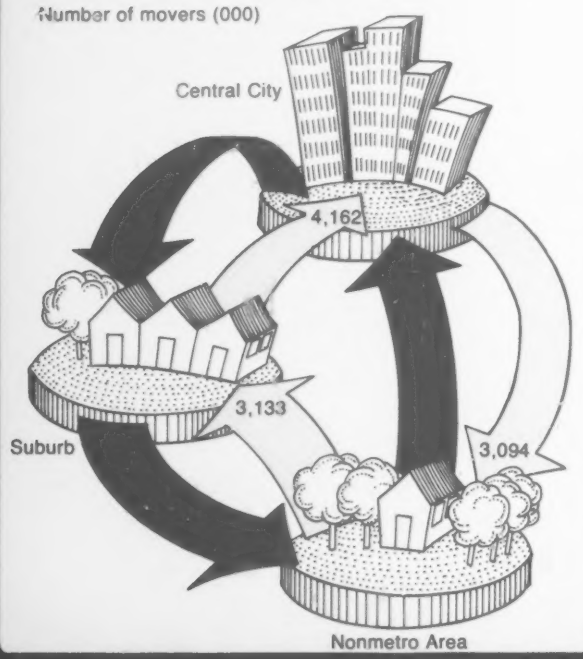
S&MM MARKETGRAPH

Mobile Americans: Disproving popular myths

One thing marketers should remember when selling to people on the move—they flout a lot of popular images. Traditionally, a person moves from a nonmetro area to the big city. During the last half of the 1970s, however, the number moving from a nonmetro area to the suburbs was 54% greater than those moving to the central cities. Despite all you read about a revival of core cities, for every suburbanite relocating in the central city, more than twice as many fled the core city. Finally, despite the media picture of well-off senior citizens trekking, lemming-like, to sunnier climes and resort areas, the lowest mobility rates occur among the elderly. In the 1975–79 period, 40% of all those 4 years and older moved, but the ratio drops to 17.7% for the 65–74-year-olds.

Three-ring migration pattern



Young adults the movingest people